INTERMETCO LIMITED

jit

INTERNATIONAL 73 GROUP OF COMPANIES

Annual Report 1971

FINANCIAL HIGHLIGHTS

DIRECTORS AND OFFICERS

Frank P. Goldblatt,
Director and President, Hamilton
Morley B. Goldblatt,
Director and Vice-President, Hamilton
George Goldblatt,
Director and Vice-President, Hamilton
Marvin E. Goldblatt,
Managing Director, Hamilton
Abby M. Goldblatt,
Director and Secretary, Hamilton
C. Claude Brannan,
Director, Burlington
Cyrl H. Hollingshead,
Director, Barrister and Solicitor, Toronto
John J. Stortz,
Treasurer, Burlington

	1971	1970
SALES AND RENTAL INCOME	$ 29,319,000	$ 38,068,000
NET INCOME	$ 285,000	$ 496,000
EARNINGS PER SHARE	20c	35c
CASH FLOW	$ 929,000	$ 1,204,000
CASH FLOW PER SHARE	66c	85c
WORKING CAPITAL	$ 1,881,000	$ 1,312,000
NUMBER OF SHARES OUTSTANDING	1,409,036	1,409,036

CONTENTS

REGISTRARS AND TRANSFER AGENTS
The Royal Trust Company, Toronto

SOLICITORS
Fraser & Beatty, Toronto

BANKERS
The Bank of Nova Scotia

AUDITORS
Erickson, Lee, Macdonald & McNeil, Hamilton

STOCK EXCHANGE LISTING
Toronto Stock Exchange

HEAD OFFICE
73 Robert Street, Hamilton

TO OUR SHAREHOLDERS

During the fiscal year ended October 31, 1971, your company weathered most difficult trading conditions, initiated a realignment of corporate and divisional management and completed reorganizations and expansions in several areas of our operations. The effects of the general economic slump, a higher Canadian dollar value and reduced industrial growth, each contributed to decreased revenues and profits for 1971.

FINANCIAL

Consolidated sales for the year ended October 31, 1971 were $29,319,000 compared with $38,068,000 in 1970. Net profit was $285,000 or 20 cents per share compared with $496,000 or 35 cents per share the previous year. Working capital at year-end amounted to $1,881,000, an increase of $569,000 from the previous year. Factors giving rise to this increase are shown in the consolidated statement of source and application of funds.

Although 1971 was one of the most difficult years experienced by your company, management believes that the reorganizations undertaken within the company, plus the resurgence of strength in the Canadian and American economies, place Intermetco in a position to achieve a higher level of profitability and establish a pattern of growth during the years ahead.

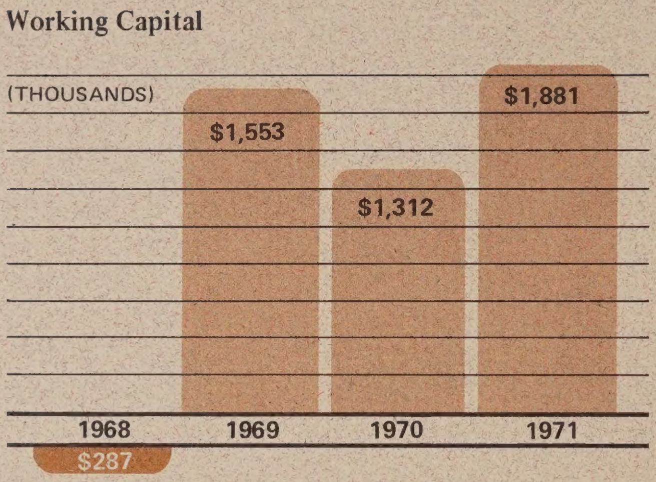
Significant factors and highlights in the operations of your company during fiscal 1971 are contained in the following review of divisional activities.

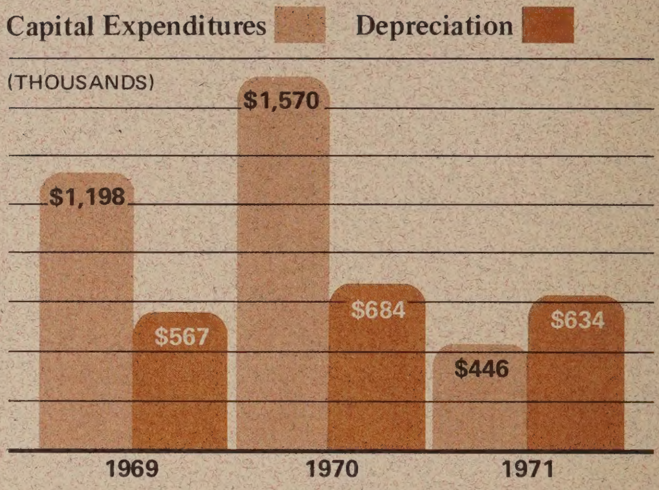
Secondary Metals Division

The brokerage and processing of ferrous secondary metal was seriously affected through the year by low demand, oversupply and a lack of alternative markets.

Prevalent indicators lead your management to believe that conditions will improve during 1972. The continuing trend to greater strength in the Canadian economy, the movement towards resettlement of international trading and monetary relationships and the immediate prospects for increased iron and steel production are cause for optimism.

Production by our "Intron" facility of high quality reclaimed metal, for which there has been a continuing increase in demand in recent years, was maintained at a steady rate and is more than meeting the expectations of our investment in this recycling equipment. During 1971, additional equipment was added to the "Intron" unit to further reduce pollution. The outlook for this product in 1972 is very promising.





Refuse Disposal Division

Our waste disposal division has achieved continuing success and growth.

Requirements for efficient forms of waste disposal services are increasing, spurred by public, corporate and government concern for the protection of our environment. The division's operations include the collection and disposal of commercial, industrial and household refuse.

Planned and continuing capital investment in modern compaction and haulage equipment enables the division to tailor services to clients' needs and to comply with the changing pollution control standards.

Manufacturing Division

A reorganization of operating and production methods and realignment of management controls and staff was completed this past year in the General Refrigeration segment of our manufacturing division. General is a leading manufacturer of commercial refrigeration equipment, store fixtures and associated products. These steps, combined with an upgrading of product quality and customer service have achieved a turnaround in the profitability of this division. A net profit was earned in the final quarter of 1971 and, although a small loss was recorded for the year, we expect a positive contribution in 1972.

Located in Downsview, Ontario, General Refrigeration's product line includes an extensive range of commercial and scientific refrigeration products and metal shelving and display modules, sold throughout Canada to grocery, dairy and supermarket outlets, as well as restaurant, hospital and similar users.

Among the special engineering projects undertaken this past year were the design and fabrication of buffeteria and galley equipment for railway passenger cars and the development of refrigerated wine cases for the new, self-service style liquor stores. General also has begun design of a refrigeration system for Canadian Forces submarines to be completed in 1972.

A second facet of our manufacturing division is Weld-O-Matic Machines Company of Hamilton, designer and manufacturer of "Weld-O-Matic" resistance spot welders.

Although a small contributor to consolidated results, Weld-O-Matic equipment is gaining increased acceptance by the metal fabricating industry. The company is proving a profitable investment.

Real Estate Division

This division is engaged in the development of commercial and industrial facilities for retention in our income-producing portfolio.

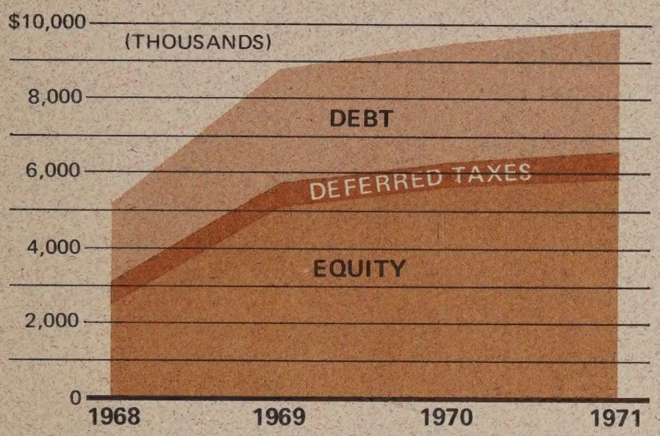
It recently completed an office in Hamilton's west-end for a branch of a Canadian chartered bank. Development of our initial five-acre industrial park on Hamilton's east boundary was completed. Additional adjacent acreage was acquired for future development. With the renewed mood of optimism in the business community apparent at the end of 1971, management anticipates a continuation of growth in the year ahead.

Steel Pipe Division

The steel pipe division distributes, on an exclusive basis in Canada, prime pipe piling manufactured by The Steel Company of Canada and markets Stelco's prime hollow structural sections in the United States.

In addition, the division markets exclusively all secondary pipe generated by The Steel Company of Canada. The recent high exchange rate of the Canadian dollar and the United States' import surtax imposed in August reduced this division's profit margin and adversely affected our competitive position in the export market.

Total Capital Invested



For the future, management believes that the complete range of structural grade tubular products available through the division positions it to capture a greater volume. Export markets will continue to be depressed while the Canadian dollar remains near par.

Machinery Division

Our machinery division is engaged in the sale of new and used machine tools, stamping and fabricating equipment including presses, mills, lathes and shears. These and other advanced numerical and tape-controlled production machines are distributed through a nation-wide network of authorized dealers.

The division sells machinery manufactured by Canadian and international manufacturers and holds exclusive distribution rights to a number of major lines. A substantial inventory is maintained at the principal office and warehouse in Hamilton and at other locations throughout Canada.

During 1971, the machine tool industry has been depressed on a world-wide basis. In Canada, the industry has undergone a significant reduction in volume resulting from: reduced industrial capital expansion; American incentives favoring domestic investment and purchasing; and particularly, a drop in Canadian purchases by automotive equipment manufacturers, a most important market. Signs are seen of only a modest improvement in 1972.

Capital Equipment Financing

Intermetco has established a capital equipment leasing and financing program to augment the services and improve the competitive position of our machinery and refrigeration equipment businesses.

Directors

This year your company welcomed to its Board of Directors, Mr. C. Claude Brannan and Mr. Cyrl H. Hollingshead. Mr. Brannan, retired chief executive of International Harvester Company of Canada Limited, and Mr. Hollingshead, a partner in the law firm of Fraser & Beatty, have contributed sound guidance to your company based on their long experience in corporate affairs.

Mr. Reuben Levy and Mr. Cecil Levy have recently resigned from your Board of Directors and from their positions in the company.

Personnel

Revisions in corporate and divisional management structure, including changes in executive responsibility and the promotion of operating personnel to management positions in several principal divisions, have been completed. See the management profile section on page 11.

Your company will continue to develop its corps of capable and experienced operating personnel in all divisions. Appreciation is extended to our employees for their efforts and dedication through the past year.

Outlook

Measured by encouraging signs of a return to optimism in the business community, by increasing strength in several of our operations, and by the reorganizational steps taken within the company, your management looks to 1972 as a year of progress.

Frank P. Goldblatt

Frank P. Goldblatt
President

February 11, 1972

INTERMETCO LIMITED (Continued under the laws of Ontario)

and subsidiary companies

CONSOLIDATED BALANCE SHEET-OCTOBER 31, 1971

(with comparative figures as at October 31, 1970)

ASSETS

	1971	1970
Current		
Cash	$ 101,730	$ 422,331
Accounts receivable	4,255,002	4,829,826
Inventories at lower of cost and net realizable value	2,601,459	2,582,523
Taxes refundable	351,201	–
Prepaid expenses	129,051	91,061
Total current assets	7,438,443	7,925,741
Fixed		
Land, buildings and equipment, less accumulated depreciation (note 4)	6,585,070	6,789,277
Other		
Excess of cost of subsidiaries over the net book value of their assets at time of acquisition	1,287,544	1,287,544
Sundry	221,564	228,866
	1,509,108	1,516,410
	$ 15,532,621	$ 16,231,428

On behalf of the board

F. P. Goldblatt, Director

M. E. Goldblatt, Director

AUDITORS' REPORT

To the Shareholders of
Intermetco Limited:

We have examined the consolidated balance sheet of Intermetco Limited and its subsidiaries as at October 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Intermetco Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERICKSON, LEE,
MACDONALD & McNEIL
Chartered Accountants.

Hamilton, Ontario
January 12, 1972

LIABILITIES

	1971	1970
Current		
Bank advances (note 5)	$ 2,314,580	$ 2,165,000
Accounts payable and accrued liabilities	3,165,770	4,198,129
Taxes payable	–	173,785
Current portion of long-term debt (note 6)	76,897	76,800
Total current liabilities	5,557,247	6,613,714
Deferred income taxes	620,490	598,472
Long-term debt (note 6)	3,431,594	3,342,608
Total liabilities	9,609,331	10,554,794

SHAREHOLDERS' EQUITY

	1971	1970
Capital stock (note 7)		
Authorized		
3,000,000 shares without par value		
Issued		
1,409,036 shares	3,963,336	3,963,336
Retained earnings	970,650	709,733
Contributed surplus (note 8)	51,035	51,035
Excess of appraised values of land and buildings over depreciated cost at dates of appraisals (note 4)	938,269	952,530
	5,923,290	5,676,634
	$ 15,532,621	$ 16,231,428

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended October 31, 1971	Year Ended October 31, 1970
Sales	$ 28,917,313	$ 37,684,637
Rental income	401,403	383,760
Total sales and rental income	29,318,716	38,068,397
Cost of sales and operating expenses (note 3)	28,976,956	36,770,881
Net income before income taxes	341,760	1,297,516
Income taxes	162,417	801,920
Net income (1971 – 13c per share; 1970 – 35c per share) before the following extraordinary item (note 2)	179,343	495,596
Income tax reduction resulting from utilization of preceding year's loss in subsidiary company	105,500	–
Net income for the year (1971 – 20c per share; 1970 – 35c per share) (note 2)	284,843	495,596
Retained earnings, beginning of year	709,733	214,137
	994,576	709,733
Adjustment of prior years' deferred income taxes	23,926	–
Retained earnings, end of year	$ 970,650	$ 709,733

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

		Year Ended October 31, 1971		Year Ended October 31, 1970
Source of funds				
Operations				
Net income	$	284,843	$	495,596
Depreciation and other items not involving a current outlay of funds		644,257		708,630
		929,100		1,204,226
Long-term debt		192,984		249,438
		1,122,084		1,453,664
Application of funds				
Fixed assets purchased (net)		445,590		1,570,303
Cost of debentures purchased for cancellation		85,715		36,552
Sundry items		21,610		88,190
		552,915		1,695,045
Increase (decrease) in working capital		569,169		(241,381)
Working capital, beginning of year		1,312,027		1,553,408
Working capital, end of year	$	1,881,196	$	1,312,027

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1971

1. **Basis of consolidation:**

The consolidated financial statements include the accounts of all subsidiaries. These are:

Cappco Pipe Piling Limited
Compressed Metals Limited
International Machinery (Quebec) Limited
Iron and Metal Incorporated
Samteit Store Fixtures and Refrigeration Limited

2. **Earnings per share:**

Net income per share is calculated on the weighted daily average number of shares outstanding. The disclosure of fully diluted earnings per share arising from the possible exercise of outstanding stock options and conversion of debentures has been omitted because the effect of dilution would not result in a material change from the basic earnings per share as reported.

3. **Statutory information:**

Expenses include the following:	1971	1970
Depreciation	$ 633,962	$ 683,946
Interest on long-term debt	$ 274,033	$ 284,826
Remuneration of directors and senior officers	$ 248,941	$ 260,707

4. Fixed assets:

Details are as follows:

	Cost or Appraised Value 1971	Cost or Appraised Value 1970
Land:		
At appraised values determined by Albert A. Takefman as at July1, 1968*	$ 741,024	$ 741,024
At other appraised values	44,333	44,333
At cost	519,705	439,584
	$ 1,305,062	$ 1,224,941

	1971 Cost or Appraised Value	1971 Accumulated Depreciation	1971 Net Depreciated Value	1970 Net Depreciated Value
Buildings, at appraised values determined by Albert A. Takefman as at July 1, 1968*	$ 2,414,489	$ 371,577	$ 2,042,912	$ 2,154,385
Other buildings and equipment, at cost except for a minor portion at appraised values	7,026,714	3,789,618	3,237,096	3,409,951
	$ 9,441,203	$ 4,161,195	$ 5,280,008	$ 5,564,336

*Excess of appraised values over depreciated cost:

	1971	1970
Appraisal of July 1, 1968:		
Land	$ 579,060	$ 579,060
Buildings	238,169	238,169
	817,229	817,229
Appraisal of December 2, 1954: Land, buildings and equipment (1971 - reduced by $14,261 as a result of assets sold)	121,040	135,301
	$ 938,269	$ 952,530

5. Bank advances:

Bank advances are secured by a general assignment of book debts.

6. Long-term debt:

	1971	1970
Loans secured by mortgages on real estate and equipment	$ 1,759,491	$ 1,966,408
Less: Principal due within one year	76,897	76,800
	1,682,594	1,889,608
7 1/2% convertible sinking fund debentures Series A	1,349,000	1,453,000
Bank loan maturing December 31, 1972, secured by general assignment of book debts	400,000	—
	$ 3,431,594	$ 3,342,608

Other details are as follows:

Mortgages:

Principal Outstanding 1971	Principal Outstanding 1970	Interest Rate	Repayment Terms	Maturity Date
$ 1,474,991	$ 1,527,843	8.745%	$ 15,170 monthly, blended principal and interest based on an amortization term of 17 years	December 15, 1973
35,000	37,500	6.75%	$ 625 principal quarterly, plus interest	May 1, 1973
30,000	32,400	6.75%	$ 600 principal quarterly, plus interest	July 1, 1975
22,507	23,455	7.00%	$ 638 quarterly, blended principal and interest	June 28, 1985
7,000	19,000	7.50%	$ 1,000 monthly, plus interest	May 23, 1972
189,993	196,210	10.75%	$ 2,213 monthly, blended principal and interest based on an amortization term of 15 years	March 1, 1975
—	130,000	10.00%	$ 130,000 principal on maturity, plus interest payable half-yearly	December 3, 1974
$ 1,759,491	$ 1,966,408			

7 1/2% convertible sinking fund debentures:

Series A:

	1971	1970
Outstanding, beginning of year	$ 1,453,000	$ 1,498,000
Less: Purchased for cancellation	104,000	45,000
Outstanding, end of year	$ 1,349,000	$ 1,453,000

Security:

A first floating charge on the undertaking and all property and assets of the Company, subject to the prior security of other indebtedness, including mortgages and bank borrowings.

Redeemability:

Redeemable on not less than thirty days' notice at 106% of the principal amount redeemed, if redeemed on or before May 1, 1972, and reducing 1/2 of 1% in each year commenced or elapsed thereafter.

Convertibility:

Convertible at the holder's option at any time prior to the close of business on April 28, 1984 or on the third business day immediately preceding the date fixed for redemption, whichever is earlier, into fully paid and non-assessable shares of the Company's capital stock, on the following basis:

If converted on or before	Number of shares per $ 1,000 principal amount of debentures
April 28, 1974	135
April 28, 1984	100

Sinking fund requirements:

$ 150,000 per annum May 1, 1975 – 1983, with the balance of $ 150,000 due at maturity on May 1, 1984.

Payments necessary over the next five years:

1972 –	Nil	
1973 –	Nil	
1974 –	Nil	
1975 –	150,000	
1976 –	150,000	300,000
Less:		
Conversions and purchases for cancellation		151,000
		$ 149,000

Restriction on distribution to shareholders:

So long as any of the Series A debentures remain outstanding, the Company may not make any distribution to shareholders by way of dividends or redemption or purchase of its shares, or elect to pay any tax on undistributed income, unless immediately after giving effect to such action the aggregate amount of such distribution and tax will not exceed the aggregate of (a) the consolidated net earnings available for dividends of the Company and its subsidiaries subsequent to October 31, 1968, (b) the net cash proceeds to the Company of the issue after June 1, 1969 of any of its shares (other than shares issued upon the conversion of Series A debentures) and (c) $ 100,000.

7. Employee stock options:

As at October 31, 1971 there were outstanding options to purchase 22,500 shares of the Company's capital stock at $5.50 per share, exercisable to March 15, 1974, all held by employees of the Company.

8. Contributed surplus:

Contributed surplus of $ 51,035 resulted from the cancellation of capital stock of three of the companies amalgamated as Intermetco Limited, as provided in the letters patent of amalgamation dated November 1, 1968.

9. Commitments and contingent liabilities:

(a) Obligations under long-term leases:

Obligations under certain leases to pay aggregate minimum annual rentals are as follows:

1972 – 1976	$ 80,500
1977 - 1984	$ 75,400
1985 – 1986	$ 40,150
1987 – 1988	$ 38,500

(b) Notes under discount:

At October 31, 1971 contingent liability for notes under discount was $ 215,371.

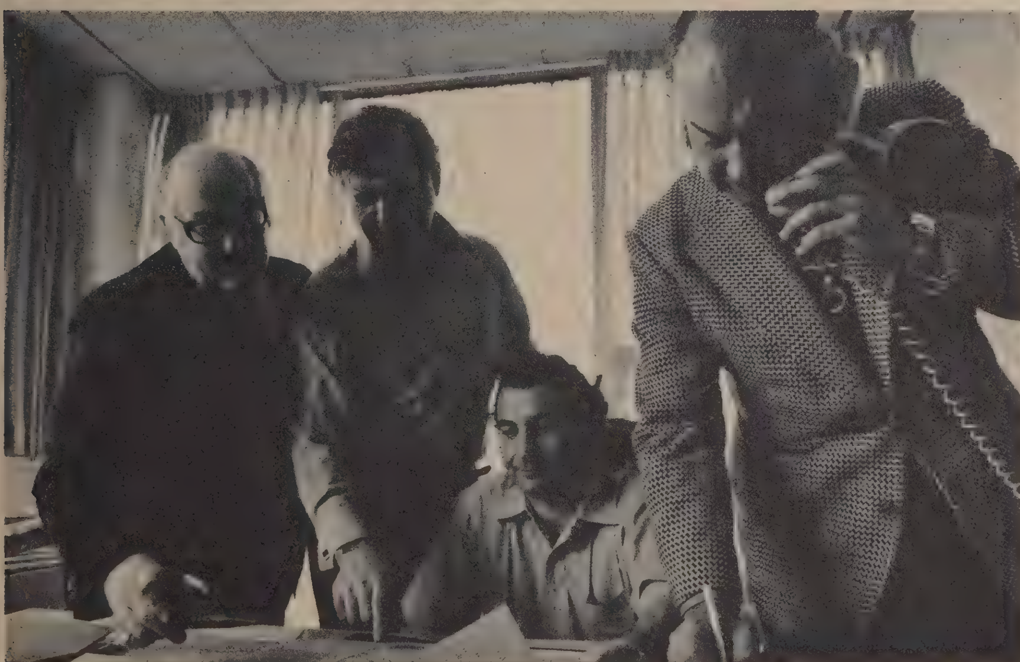
10. Pension plan:

During the year the Company improved the benefits under its non-contributory pension plan for unionized employees, with retroactive effect for past service. The revised amount of past service costs remaining to be charged to future operations is $ 35,690, to be liquidated by annual instalments of $ 3,146 over a period of 18 years, based on actuarial advice. The improved benefits will also have the effect of increasing annual future service contributions by approximately $ 4,800.

MANAGEMENT: A PROFILE

The management committee: Marvin E. Goldblatt, managing director; John J. Stortz, treasurer; Abby M. Goldblatt, secretary; Douglas Warner, controller.

Charles Coughlan, general manager, controls the operations of the steel pipe division.

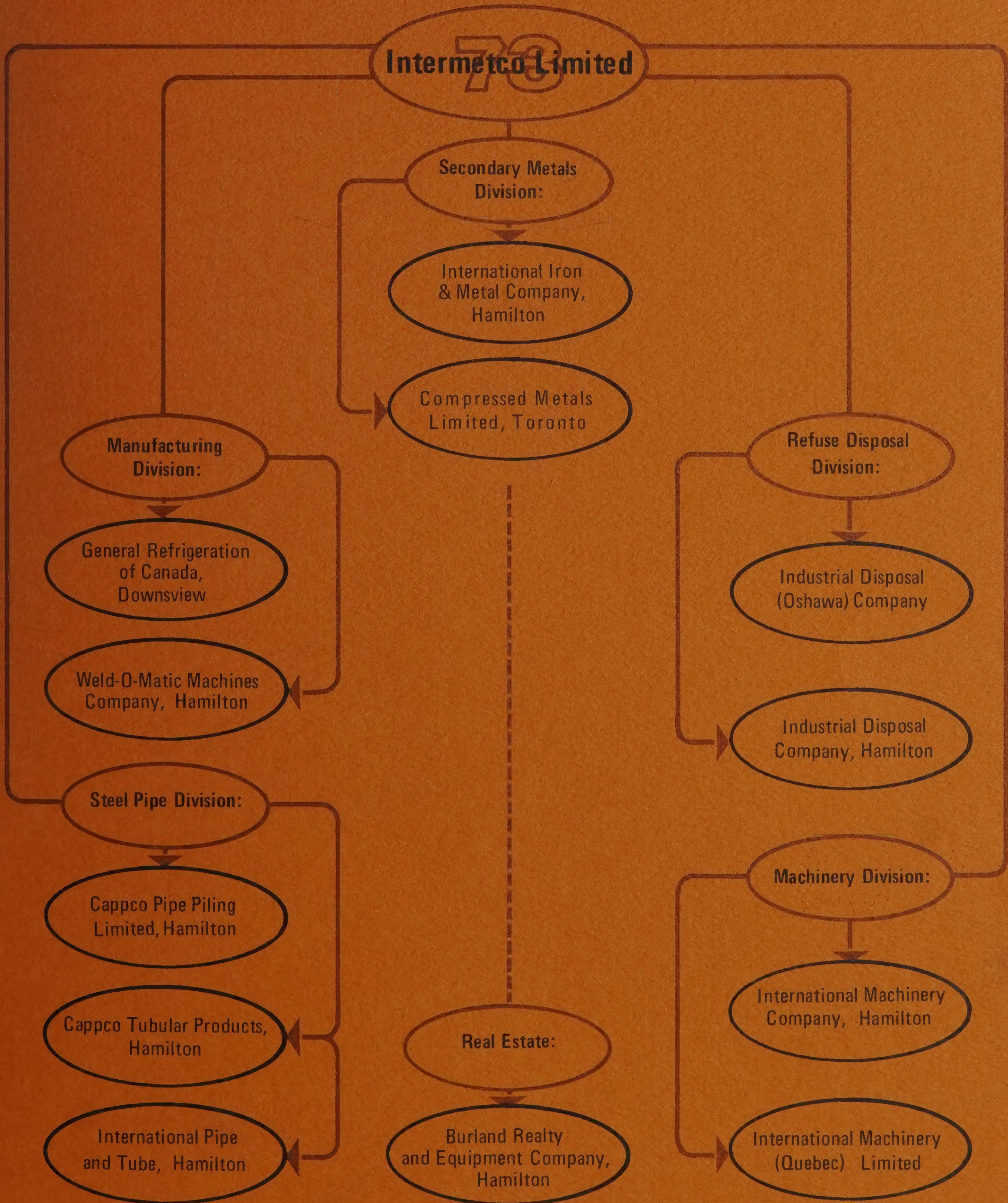


Hyman Caplan, manager industrial accounts; David Berman, operations manager; Lawrence Kaiman, manager scrap purchasing, and Harry K. Brown, sales manager, head up the operations of the secondary metals division.

Irving Swartz, general manager, directs the machinery division.

Mason Gerrard, general manager, spearheads General Refrigeration of Canada.

INTERMETCO LIMITED CORPORATE ORGANIZATION



Intermetco Limited 73 Robert Street, Hamilton, Canada

HEAD OFFICE:

73 Robert Street, Hamilton 21, Ontario

DIVISIONS and SUBSIDIARIES

International Iron & Metal Company

International Machinery Company

Weld-O-Matic Machines Company

Burland Realty & Equipment Company

Industrial Disposal Companies

Compressed Metals Limited

International Machinery (Quebec) Limited

Iron & Metal Incorporated

Cappco Pipe Piling Limited

Samteit Stores Fixtures & Refrigeration Limited

File

INTERMETCO LIMITED
and subsidiary Companies

INTERIM REPORT TO SHAREHOLDERS

For the six months ended April 30, 1971

INTERNATIONAL GROUP OF COMPANIES

73

INTERMETCO LIMITED
and subsidiary Companies

To our Shareholders:

We submit the following unaudited Statements of Income and Source and Application of Funds for the six months ended April 30, 1971 with comparative figures for 1970.

CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	SIX MONTHS ENDED APRIL 30, 1971	1970
Sales	**$17,493,097**	$17,595,207
Cost of sales and operating expenses	**16,606,300**	16,247,884
Depreciation	**335,484**	308,706
Interest on long-term debt	**137,458**	159,530
Net income, before income taxes	**413,855**	879,087
Income taxes	**234,148**	465,055
Less: Reduction in income taxes due to loss carry forward	**58,796**	—
Net income	**$ 238,503**	$ 414,032
Earnings per share	**17¢**	29¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(Unaudited)

	SIX MONTHS ENDED APRIL 30, 1971	1970
FUNDS PROVIDED BY:		
OPERATIONS:		
Net income	**$ 238,503**	$ 414,032
Charges to income not requiring funds, including depreciation and deferred income taxes	**336,117**	315,263
	574,620	729,295
FUNDS APPLIED TO:		
Fixed asset additions	**199,321**	1,104,494
Long-term financing	**184,845**	(278,147)
Sundry items—net	**(20,253)**	23,992
	363,913	850,339
Increase (decrease) in working capital	**210,707**	(121,044)
Working capital, beginning of period	**1,312,027**	1,553,408
Working capital, end of period	**$ 1,522,734**	$ 1,432,364

HAMILTON, ONTARIO
June 18, 1971

F. P. GOLDBLATT,
President